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National Association of Purchasing Management®

Report On Business®

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Index Rebounds to 53.0%

New Orders & Production Growth Rise

Employment Continues Decline

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

April Report

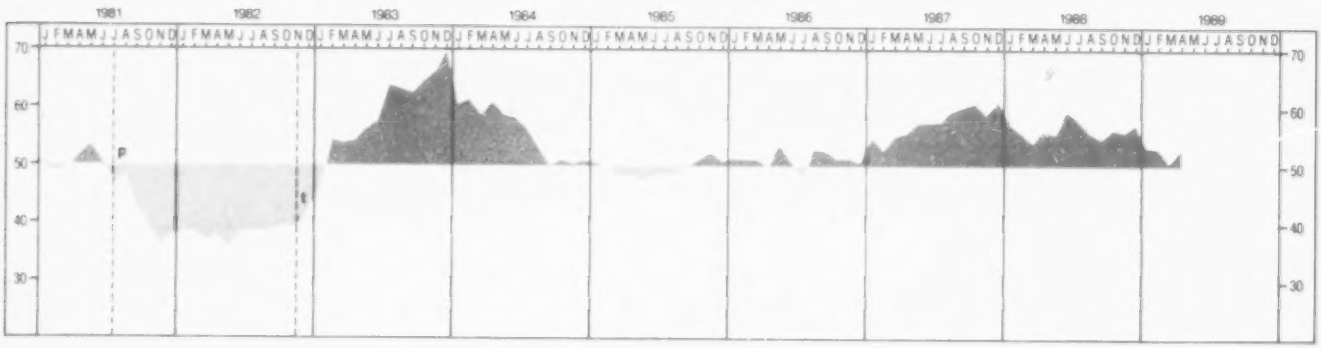
The economy continued to grow in April at a somewhat faster pace than in March, but about the same as in the first quarter, say the nation's purchasing executives in their latest ***Report On Business.*** Both **Production** and **New Orders** registered respectable increases in growth after registering declines in the rate of growth in March. Inventory buying did not fuel the pace of the growth, as **Inventories** declined for the fourth consecutive month.

New Export Orders increased at the highest rate since December, after registering three consecutive months of lower rates of growth. Of the 67% of members who said they export, 28% reported better Export Orders in April, up sharply from 22% in both February and March. The 4% who reported worse Export Orders is down considerably from 9% in March. The seasonally unadjusted index rose to 62.0%, matching December's vigorous growth rate.

Vendor Deliveries continued slower, but the rate of slowing was slightly greater than in March. The list of commodities in short supply also increased. **Employment** continued to decline in April for the third consecutive month. Although prices rose again in April, the rate of growth slowed, continuing the declining trend in inflation, which began in mid-1988.

The ***Report*** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The economy entered the second quarter on a higher note than it ended the first quarter. A surprising increase in New Export Orders appears to have fueled the brisk rebound from March's sharply lower growth. Nevertheless, most other indicators signal a moderate rate of growth in the economy in the months ahead."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index

April	56.0	November	55.9
May	55.5	December	57.3
June	59.2	January '89	53.2
July	57.9	February '89	53.0
August	55.7	March '89	50.4
September	54.7	April '89	53.0
October	56.2		

The **Purchasing Managers' Index** climbed to 53.0% in April, a healthy increase from 50.4% in March. This is the 33rd consecutive month this leading indicator has registered over 50%. A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. Bretz added, "The index has averaged 52.4% for the first four months of 1989. Past experience indicates that, if this average were to continue for the remainder of 1989, it would be consistent with real GNP growth of about 2.5%, or basically the same as in the first quarter."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

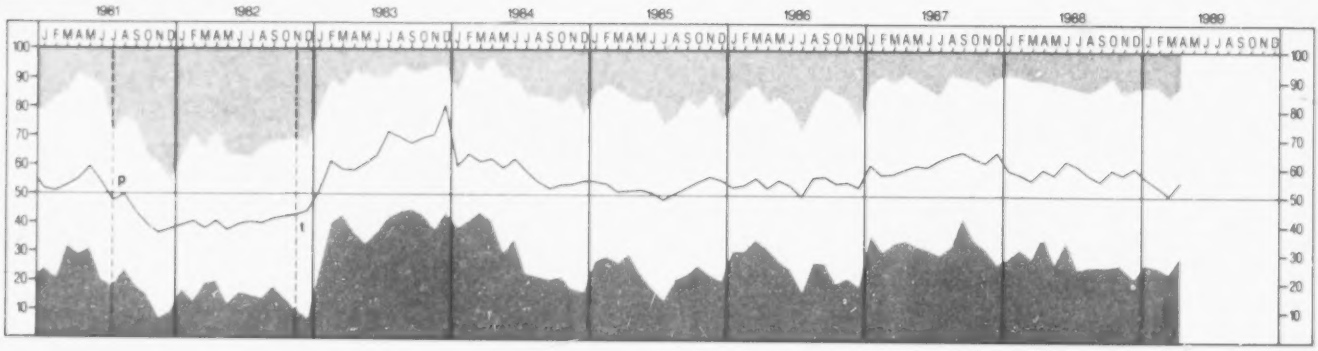
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response,
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries),
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("p" — July 1981) and trough ("t" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

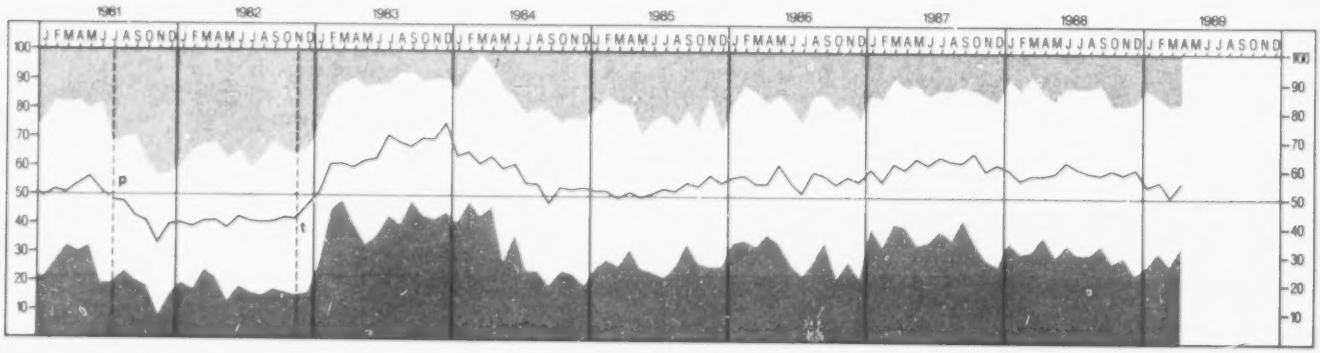
PRODUCTION



Production registered the 33rd consecutive month of expansion in April. The Production index advanced to 55.5%, considerably higher than 50.7% in March. The April increase reverses three consecutive months of declining growth.

Production	%Better	%Same	%Worse	Net	Index
April	30	58	12	+ 18	55.5
March	24	60	16	+ 8	50.7
February	26	62	12	+ 14	53.7
January	27	61	12	+ 15	56.2

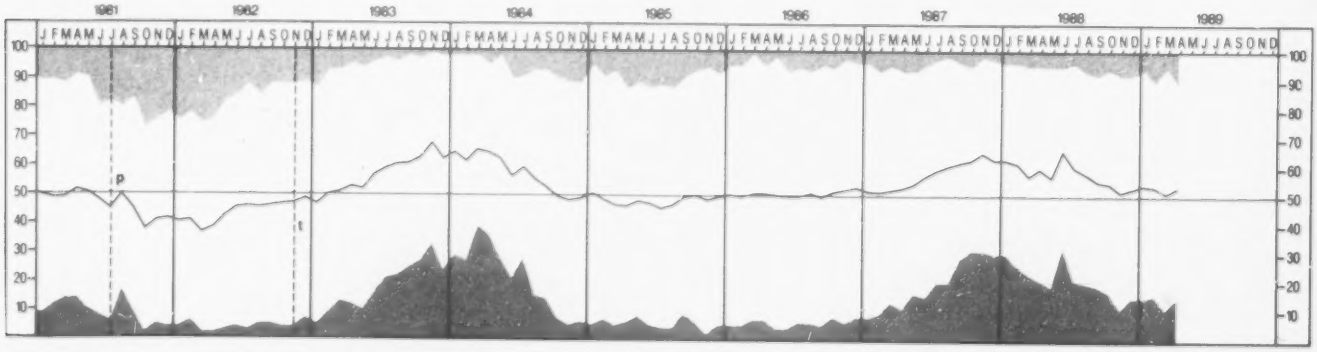
NEW ORDERS



New Orders increased in April for the 47th consecutive month. The rate of growth increased sharply as the New Order index rebounded to 55.3% from a very low 50.9% in March. The growth was spurred by a large increase in the pace of new export orders in April.

New Orders	%Better	%Same	%Worse	Net	Index
April	34	49	17	+ 17	55.3
March	27	55	18	+ 9	50.9
February	32	53	15	+ 17	55.9
January	27	61	12	+ 15	54.5

VENDOR DELIVERIES



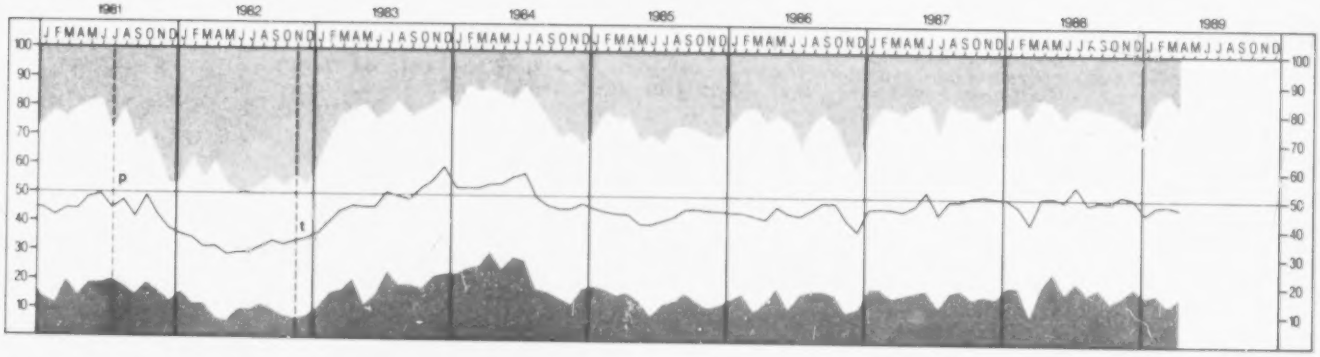
Vendor Deliveries slowed in April for the 31st consecutive month. The rate of slowing was somewhat greater than in March. The Vendor Deliveries index rose to 53.2%, up from 51.2% in March, and reflects a list of commodities in short supply which grew larger in April.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
April	15	74	11	+ 4	53.2
March	11	84	5	+ 6	51.2
February	16	74	10	+ 6	53.3
January	15	79	6	+ 9	54.0

IN SHORT SUPPLY:

Palladium (2nd consecutive month; used heavily in making alloys for bearings, springs and in precision instruments), **Copper** (7th time in 8 months), **Nickel** (3rd time in 4 months; used heavily in making stainless steel, plating metals and batteries), **Steel** (22nd time in 24 months), **Castings** (5th time in 8 months), **Bleached Paperboard** (10th consecutive month), **Acrylic Acid** (9th time in 10 months; used in manufacturing plastics), **Caustic Soda/Soda Ash** (23rd consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Ethylene** (11th time in 13 months; used heavily in making ethylene oxide, plastic resins and glycols), **Ethylene Derivatives** (8th time in 11 months), **Titanium Dioxide** (21st consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Polypropylene** (used in making fabrics, carpets and yarns), **Zircon** (used in making glass), **Nylon, Rayon** (6th consecutive month), **Polyester** (3rd consecutive month; reported to be on allocation), **Bearings** (9th consecutive month; a consequence of anti-dumping suits), **Motors, SRAMS** (static electronic memory devices used heavily in computers; Japanese suppliers switched production to more profitable DRAMS).

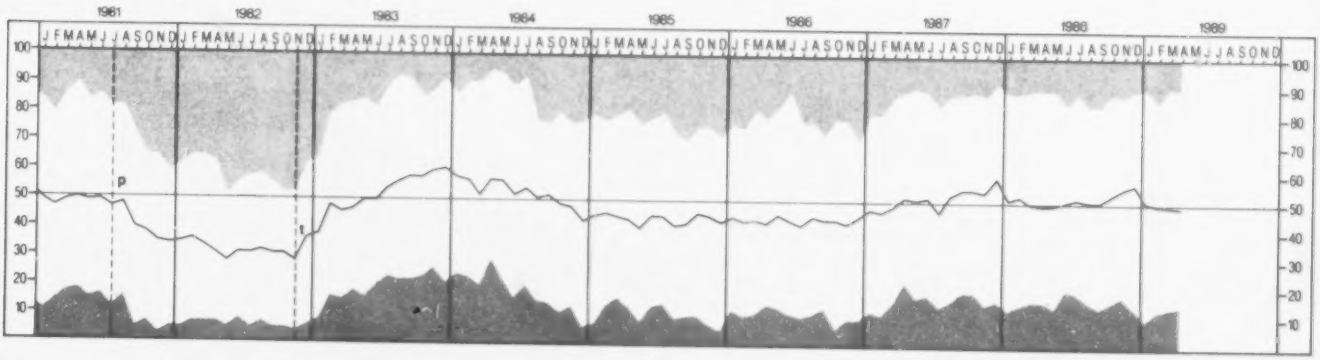
INVENTORIES



For the fourth consecutive month, manufacturers' inventories declined. The seasonally adjusted Inventories index declined to 47.4% from 48.6% in March. Despite slowing vendor deliveries and numerous commodities in short supply, purchasers refuse to build inventories. This should cushion any shock from a slowing economy.

Inventories	%Higher	%Same	%Lower	Net	Index
April	17	64	19	-2	47.4
March	14	73	13	+1	48.6
February	18	67	15	+3	48.1
January	17	59	24	-7	45.5

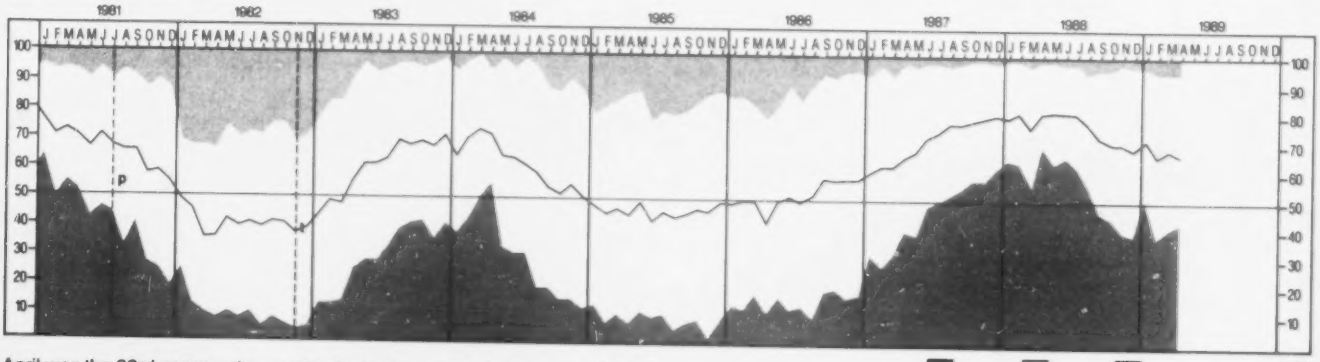
EMPLOYMENT



Employment declined for the third consecutive month, after increasing the previous eight months. The Employment index has weakened to 49.2%, slightly less than in March (49.4%). It is the lowest in over a year (49.1% in April 1988) and reflects the caution with which manufacturers view the slowing economy.

Employment	%Higher	%Same	%Lower	Net	Index
April	15	75	10	+5	49.2
March	14	76	10	+4	49.4
February	13	72	15	-2	49.7
January	10	80	10	0	50.5

COMMODITY PRICES



April was the 33rd consecutive month of price increases. However, the Price index fell to 66.5% in April from 68.3% in March. Except for February (66.0%), the Price index at 66.5% is the lowest in two years (65.6% in April 1987) and continues in an overall declining trend since June 1988 (81.3%).

Prices	%Higher	%Same	%Lower	Net	Index
April	43	52	5	+38	66.5
March	41	54	5	+36	68.3
February	38	57	5	+33	66.0
January	51	46	3	+48	71.8

UP IN PRICE:

Nickel (11th time in 14 months; used heavily in making stainless steel, plating metals and batteries), **Steel** (31st time in 32 months), **Stainless Steel** (14th time in 17 months), **Zinc** (15th time in 16 months; used heavily in metal alloys and as a protective coating for metals), **Bearings** (9th time in 10 months), **Corrugated Shipping Containers** (2nd consecutive month), **Kraft Paper/Linerboard** (2nd consecutive month; used in making corrugated shipping containers and bags), **Printing Paper** (25th time in 28 months), **Plastic Resins** (20th time in 21 months), **Rubber** (2nd time in 4 months), **Alcohols** (used as a solvent in laboratories and in industry), **Aminos** (used as a fungicide, emulsifier and soil stabilizer), **Caustic Soda/Soda Ash** (29th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Titanium Dioxide** (1st time since October 1988; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), **Miscellaneous Chemicals** (3rd consecutive month), **Cotton, Polyester** (5th consecutive month), **Fuel Oil** (5th consecutive month), **Diesel Fuel, Gasoline**.

DOWN IN PRICE:

Aluminum (reported up in price in January for 22nd time in 24 months), **Lead** (2nd time in 3 months; used heavily in making paints, petroleum, pipe and batteries), **Chlorine** (used heavily in bleaching paper and fabrics, purifying water, and in making synthetic rubber, plastics and other chemicals), **Methanol** (3rd time in 4 months; used heavily as a solvent and in synthesizing other chemicals), **Polyethylene Resin** (used heavily in making packaging materials and paper coatings), **Polypropylene** (3rd consecutive month; used heavily in making packaging materials and paper coatings).

BUYING POLICY

Lead times for Production Materials were only slightly changed from last month. Members reporting lead times of 60 days or less for Production Materials increased to 82%, up from 80% in March and 76% in February. This shorter lead time is a reflection of the considerable general improvement in vendor deliveries which has occurred since mid-1988. Lead times for Capital Expenditures lengthened slightly for the second consecutive month. Members reporting lead times in the significant 6 months and longer category for Capital Expenditures increased to 56% in April, up from 54% in March and 53% in February. Lead times for the Maintenance, Repair and Operating (MRO) Supplies lengthened as the number of members reporting lead times of 30 days or less declined to 81%, down from 87% in March, which was the most since May 1988 (also 87%).

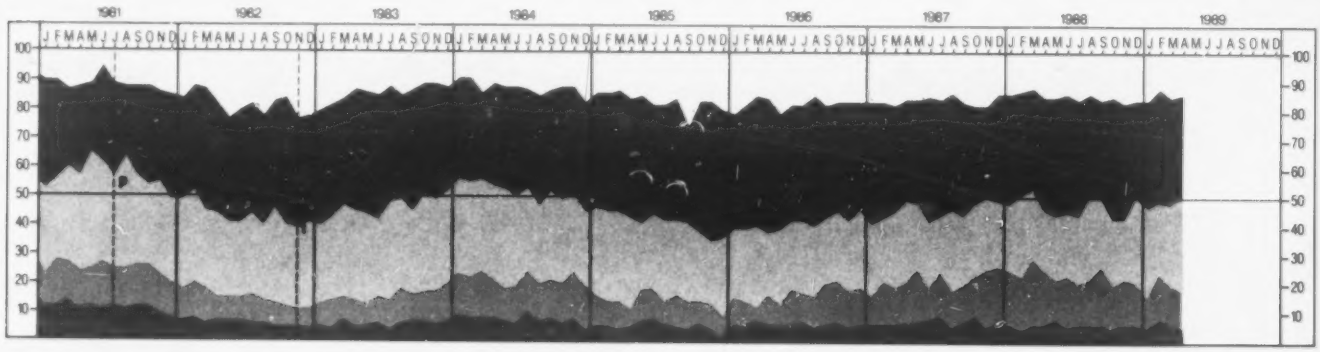
Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
April	14	35	33	13	5
March	15	37	28	14	6
February	12	39	25	16	8
January	16	37	31	11	5

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
April	13	3	9	19	56
March	11	5	9	21	54
February	11	6	9	21	53
January	16	4	8	15	57

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
April	39	42	14	4	1
March	41	46	12	1	0
February	42	42	13	2	1
January	38	47	11	3	1

PRODUCTION MATERIALS



Commodity Report
April, 1989

PACKAGING
Prepared by the NAPM Packaging Committee. Chair: Carl Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, WI.

GENERAL: Packaging markets remain strong. Paper and paperboard production reached an all-time high in 1988. Continuing at this rapid pace so far in 1989. Price increases should moderate in 1989.

METAL CANS: Supply and demand are in balance; pricing is stable and supply is adequate.

FIBRE CANS: This mature market continues to be stable. No price increases are indicated and supply is adequate to surplus.

GLASS: Price increases announced and appear to be holding. Supplies adequate. A soda ash shortage looms for this summer.

MOLDED PLASTICS: Resin prices moderating. Members report PE holding, PP decreasing, and PVC increasing. Molded product prices will probably follow. Supply improving somewhat. News in this industry concerns disposal problems with plastic.

FILMS: Moderating of resin prices should prevent any significant price increases. Supply generally adequate, with some tightness.

LAMINATED STOCK: Impacted by paper, plastic, and aluminum, this market is mixed depending on the structure and the customer. Supply is somewhat tight with some price increases.

METAL DRUMS: Supply continues adequate, with prices increasing, due to higher steel prices.

FIBRE DRUMS: Market is stable to strong. Due to good sales and raw material increases, some prices being raised.

FOLDING CARTONS: Continues to be the strongest market in packaging. SBS price increases are sticking. SBS supplies are tight, and some members are on allocation. Price increases on the scale of 1988, however, are unlikely.

CORRUGATED: Linerboard companies announced an increase of $30/ton, but many members don't believe it will hold. Supply improving. There should not be increases in 1989 similar to those in 1988. Possibility of a decrease exists.

BAGS: Prices are stable to increasing; availability is adequate to tight. The real news is the environmental issue of the biodegradability of plastic bags.

PAPER PRODUCTS: Prepared by the NAPM Paper Committee. Chair: Glenn Farber, C.P.M., Vanier Graphics Corp., Santee, CA.

GENERAL: 1989 starting strong in most grades. Fear of slowdown in second half prompting increases for many grades — last chance for some time. Paper capacity growth projected at 3.3% for 1989–91. Some prediction of excess pulp for '91–'92.

NEWSPRINT: Readily available and will continue so. Much capacity coming on later in the year adding to oversupply. Lead time normal. January 1 increase never materialized. Discounting increasing.

UNCOATED GROUNDWOOD: Normal availability should remain. Lead time, inventory, and pricing steady, but may soften due to newsprint excess.

COATED GROUNDWOOD: Demand still strong but may be softening; some reports of going off allocation.

UNCOATED FREESHEET: Availability normal or better and lead times decreasing. Some allocations on larger buyers. Considerable capacity anticipated. First signs of softening due to slower growth. Should be turning to buyer's market soon. Announced increase for April 1 having trouble except for reprographic sector.

COATED FREESHEET: Availability normal and should stay stable or decrease. Inventories mixed between increases and decreases. Prices increasing.

BLEACHED BRISTOLS: Supply very tight. Limited capacity increases. Lead times steady. Inventories steady to decreasing. Prices increased in January, more expected later in the year.

PAPERBOARD/LINERBOARD: Supplies very tight, especially paperboard. Will continue on allocation for some time. Lead times steady. Price steady for now, but likely to increase later. Linerboard increase delayed temporarily. Still very shaky as supply is catching up with demand.

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